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MEMORANDUM

TO : Ron WADE CC : Alfred Clark
Greg ZINK Albert Hakim

FROM : Willard I. Zucker

RE : FORWAY

DATE : Monday 6 October 1986

- 1) Recap Co. to 1,800,000 shares of no par, or \$ 1.-- par value.
- 2) Cancel \$ 200,000 debt to Farber
 - (a) does this create income for book purposes ? Probably.
 - (b) Does this create taxable income ?
- 3) What is our NOL carryforward at 30/6/86 ?
- 4) Let's find appraiser for the building (small), and get approval from Harold Cohen that appraiser is satisfactory to them.
- 5) I propose that we treat for tax purposes the JF transaction as follows :
 - (a) Termination of employment contract - no tax incidence, no book incidence.
 - (b) Surrender of debt by Farber - see above.
 - (c) JF sold his shares for \$ 750,000
 - (1) Hakim and Secord will probably purchase 2/3rds of these shares for \$ 600,000.
 - (11) Al will purchase 1/6th for \$ 75,000.
 - (111) I will purchase 1/6th for \$ 75,000.

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- 6) What will capital stock account be after cancellation of the debt to Farber of \$200,000 ?
- 7) We are tentatively moving to each contribute \$ 60,000 to capital to increase the capital stock account by \$ 180,000.
- 8) To appease the bank, we will propose a collateral arrangement for \$ 300,000 - no effect on Forway's books.
- 9) With the elimination of JF salary, etc. I look forward to :
 - a) less bitching,
 - b) monthly shipments of not less than \$800,000 and preferably 1 million \$. You should be able to cut a minimum of 5,000 invoices per year at average of \$ 2,500 or \$ 12.5 million in sales,
 - c) a minimum of 25% Gross Profit Margin for 3,125,000 of Gross Profit,
 - d) GSA controlled to 1,125,000,
 - e) a before tax profit of 2 million.
- 10) At the earliest possible time, I wish to see back the funds which went to factor ineligible account receivables. This was taken for a specific purpose, and for short term and must be repaid.
- 11) Longer range - I think we can process 500 invoices per month (we have done this in the past) at \$2,500 or more average for a minimum sales volume of 15 million dollars.

If we can made a gross profit of 25 to 30%, that should give us 3,750,000 to 4,500,000 as gross profit.

Allowing GSA, including interest expense of 2 million - that should leave us with 1,750,000 to 2.5 million of before tax profit or 11.66% to 16.66% of sales.

Can we do it ?

WIZ/ac

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